REVIEW

KEYNES' INDIAN CURRENCY AND FINANCE[1]

THIS book, by the editor of the *Economic Journal*, stands in the first rank among the numerous books on Indian currency that have appeared since the report of the Fowler Committee of 1899. Shortly after the chapters of the book were written, the author was appointed a member of the Royal Commission (of 1913) on Indian Finance and Currency.

> "If my book had been less advanced," he says in the preface, "I should, of course, have delayed publication until the Commission had reported, and my opinions had been more fully formed by the discussions of the Commission and by the evidence placed before it. In the circumstances, however, I have decided to publish immediately what I have already written, without the addition of certain other chapters which had been projected."

It is not as a historian of Indian currency that the author writes, but rather as a scientific interpreter and critic of the currency system as it is and as it has recently developed. Among the eight topical chapters which constitute the book the three that contribute most that is of a general interest to the subject are those dealing with "The Gold-Exchange Standard," "The Present Position of Gold in India and Proposals for a Gold Currency," and "Indian Banking."

In the chapter on the Gold-Exchange Standard, Mr. Keynes shows how that standard, proposed for India as early as 1876 by Mr. A. M. Lindsay, of the Bank of Bengal, and for more than two decades most ably defended by him, was rejected by the British authorities, only to become later, through administrative orders, "the head of the corner."

[1] Indian Currency and Finance. By John Maynard Keynes. London: Macmillan, 1913. Pp. viii, 263.

He maintains that the gold-exchange standard is not in the currency world of today an anomalous standard, as is generally supposed, but merely one that "carries somewhat further the currency arrangements which several European countries have evolved during the last quarter of a century . . . " (p. 29). What he has in mind is the practice followed by the central banks in certain European countries, of keeping in their portfolios a supply of short time foreign bills as a sort of secondary gold reserve for use in times of emergency. Nations like England, which are strongly creditor, need not resort to this practice, and may rely upon varying their Bank discount rates to attract gold or to hold it; but nations that are strongly debtor, like Russia, Austria-Hungary, and the great trading nations of Asia, he says, must deliberately adopt this practice or resort to the alternative of "a much larger reserve of gold, the expense of which would be nearly intolerable" (pp. 26 and 27).

The reviewer is unable to see the close fundamental likeness which Mr. Keynes finds between the gold-exchange standard and this practice of holding foreign bills. Under the gold-exchange standard, the government sells drafts against its foreign gold credit (*i. e.* its gold reserve), when money at home is relatively redundant, as evidenced by exchange having reached the gold-export point. Thereby it relieves the redundancy through withdrawing from circulation and locking up the local money received in payment for the drafts. Under the practice of holding foreign bills to protect the money market, the central bank sells its foreign bills, when money at home is relatively scarce, as a means of securing gold for importation or of preventing its exportation. In the former case the sale of drafts takes the place of an exportation of gold, and the resulting withdrawal of local money from circulation is in essentials an exportation; in the latter case the sale of the drafts abroad is part of a process for securing gold for importation or for preventing its exportation.

Mr. Keynes' assertion in connection with the gold-exchange standard, that the United States in dealing with her dependencies has "imitated, almost slavishly, India" (p. 27,

note), cannot be susbtantiated. The Philippines have a simpler and purer form of the gold-exchange standard than has India. The Indian system has various complicating elements: the sale of council bills for fiscal purposes; the paper money reserve, whose functions decidedly overlap those of the gold standard reserve; and the absence of anything like as rigid and automatic requirements as the Philippines possess for adjusting the monetary circulation to the norms demanded by a strict gold standard. The gold-exchange standard, moreover, was put into complete operation in the Phillippines on October 10, 1903, *i. e.*, before the Secretary of State for India issued the notification of 1904, expressing his willingness to sell council bills on India at 1*s.* $4\frac{1}{8}$*d.* per rupee without limit. In the Philippines, the requirements for redemption in drafts are essentially legislative and mandatory; in India they are administrative and optional. The Philippines did follow very closely the principles of the gold-exchange standard based upon Ricardo, as those principles were developed by Mr. A. M. Lindsay. These were the principles, however, which India formally rejected in 1899, and toward which she has been moving ever since, tho with a slow and halting step.

The Fowler Committee in its report of 1899 said (p. 16):

> "We are in favor of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint."

British gold was declared legal tender at the rate of 15 rupees to the sovereign in 1899, and measures were immediately taken under consideration looking toward the establishment of a branch of the Royal Mint at Bombay. Proposals to this end were accepted both by the Secretary of State for India, and by the Viceroy's Council. An attempt in 1900 to force sovereigns into circulation proved unsuccessful; the sovereigns were rapidly exported, returned to the government, or hoarded. Since that time there has been some progress

in the introduction of gold coins into circulation, particularly in Bombay and the Punjab, altho in the greater part of India the use of gold coin is still negligible and is liable to continue so for a long time to come. Despite repeated efforts by the Indian Government, and a voluminous correspondence between the Indian Government and the British Treasury, no branch of the Royal Mint has yet been established in India for the coinage of gold money. Apparently the British Treasury early made up its mind that the establishment of such a mint in India was undesirable, and undertook to wear out the patience of the Indian Government by raising all sorts of technical objections.

Mr. Keynes is opposed to the establishment of a mint at Bombay for the coinage of gold, and sees little to be gained and much to be lost from infusing gold coins into general circulation. The proper place for the gold, he maintains, is not in circulation, but centralized in reserves. Gold coin in circulation is practically unavailable to meet foreign demands for gold. Furthermore, the substitution of gold coins for silver rupees or rupee notes in the circulation would lessen the profits realizable from seigniorage on rupee coinage and from interest on the invested portion of the paper money reserve; and, since "it is the fiduciary coins with which the public are most eager to part" in time of crisis, "the infusion of more gold into circulation would . . . not correspondingly reduce the amount of . . . reserves which Government ought in prudence to keep" (p. 91). Furthermore, it is desirable to encourage the popularity of notes in a country like India, where checks are not likely to be used for many years to come to a dominating extent, since "it is only thus that a proper degree of seasonal elasticity can possibly be secured" (pp. 96 and 97). India, moreover, already wastes large resources in the needless accumulation of the precious metals, and the Government ought not to encourage in the slightest degree this ingrained fondness for handling hard gold (p. 101).

Few of the many books on Indian currency contain much information about Indian banking. One of the merits of

Mr. Keynes' book is a good chapter on this subject — a subject that seems destined to come into greater prominence in the near future. In several respects India's banking troubles are similar to those of the United States. Her banking system is decentralized; her trade demands are highly seasonal in character, while she has no elastic bank-note system to act as a buffer; her government revenues are large, and the fact that varying amounts of government funds are kept on deposit in the few Presidency banks or hoarded in the government treasuries creates a disturbing factor in the money market. Banks in India are poorly regulated, and most of them have been increasing their deposits in recent years much more rapidly than their reserves or their capitals. There are growing up in various parts of India numerous so-called banks which in America would be characterized as "wild cat banks of the worst sort."

At present there is much agitation for a state bank in India. The Indian Government is already performing many of the functions of a central bank, in connection with such matters as note-issue, the management of government cash balances, and the regulation of the foreign exchanges. "Other benefits," says Mr. Keynes, "cannot be obtained easily, so long as these functions are utterly divorced from those of banking proper" (p. 236). The only adequate solution of the difficulty he finds in the establishment of a state bank, not on the model of the Bank of England, but rather upon that of some such bank as the Reichsbank, the Bank of Holland, or the Bank of Russia.

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